the Freeman

Ideas on Liberty

DECEMBER 1985

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Robert D. Love, *President*

Editor: Charles H. Hamilton
Publisher: Paul L. Poirot

Managing Editor: Beth A. Hoffman
Production Editor: Amy S. VanLaar
Contributing Editors: Robert G. Anderson
Howard Baetjer Jr.
Bettina Bien Greaves
Edmund A. Opitz (Book Reviews)
Brian Summers
Joan Kennedy Taylor

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Production Is a Team Effort

FROM the mine to the auto, the farm to the grocer, the lab to the hospital, production is a team effort, not a class struggle. Workers and managers are teammates in a common enterprise. Everyone gains if the operation functions smoothly; everyone loses if it is disrupted. Everyone depends on everyone else.

The producer's goal is to develop a smoothly functioning team effort and avoid costly disruptions. The prices and wages he pays are determined by the market. To obtain raw materials and workers, producers at each stage of the production process must outbid their competitors. Yet they cannot long afford to pay more than customers will pay for the final product.

Occasional disruptions such as floods, fires, earthquakes and hurricanes are inevitable. But violent man-made disruptions like strikes could be avoided if everyone realized that production is a team effort. Unfortunately, many people don't; they accept the class conflict idea and believe they must strike to receive the full value of their labor.

Strikers do not realize that management *must* pay market wages. If they pay less, workers will leave them; if they pay more they face bankruptcy. Resilient and innovative entrepreneurs can, and often do, overcome the disruptive effects of strikes. They rearrange production plans and re-establish effective team efforts. But a strike is expensive. In the long run, its costs are distributed through the market among all those who would otherwise benefit. The costs of the disruption are carried back through the market as every stage of the team effort is disrupted from the automobile back to the mine, the grocer back to the farm and the hospital back to the lab.

—Bettina Bien Greaves

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John K. Williams

GETTING THERE!

"Cheshire Puss," [Alice asked]... "Would you tell me please which way I ought to go from here?"

"That depends a good deal on where you want to get to," said the Cat.

"I don't much care where—" said Alice.

"Then it doesn't much matter which way you go," said the Cat.

"—so long as I get *somewhere*," Alice added as an explanation.

"Oh, you're sure to do that," said the Cat, "if you only walk long enough."[1]

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FEW LOVERS OF LIBERTY and students of the freedom philosophy share the confusion of Lewis Carroll's Alice. We know "where we want to get to." We wish to move from a fettered market economy and an intrusive government to a free market economy and a limited government. Yet *how* to reach that destination is not without its problems. Alice's question, therefore, can well be ours: Which way ought we to go from here?

Economic Education

Economic education is a necessary, but not sufficient, condition for the transformation of the *possible* world of economic and political liberty into a realized world. "Getting there" cannot be achieved by economic education alone; *without* economic education, however, "getting there" is impossible.

What form, however, should that economic education take? Two directions seem to me important. First and foremost comes *self*-education. As the late Leonard Read insisted again and yet again, you and I must be perpetual students of the freedom philosophy. We must read; we must think; we must meet with like-minded men and women and learn from them and with them. We will never possess all the answers, but when real-world counterparts of the grinning Cheshire Cat ask us to describe our destination, we will be able to say more than could poor Alice.

There seems to me, however, to be a second direction we students of the freedom philosophy should be taking. I refer not to research at the cutting edge of human thought about economic issues and political philosophy, important though such research be. Fortunately, many scholars in universities, foundations, and institutes are, in this nation and other nations, engaging in such research, and doing so in greater numbers than has been the case for many decades. The gap I perceive, and believe we both could and should close, relates to accessible materials introducing and creating an appetite for our case. Let me explain.

On my shelves, alongside the collected writings of Karl Marx, the significant writings of Lenin, the works of Trotsky, and numerous volumes by contemporary Marxist-Leninist thinkers, stand some so-called "documentary comic-books."[2] These books *introduce* readers to the ideas of Marx and of Lenin. They do so in an admittedly superficial but nonetheless essentially accurate way. Footnotes and comments in the text refer the reader to more sophisticated works. The books are easily read, are not without humor, and both introduce a case and whet the

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The Reverend Dr. John K. Williams has been a teacher and is a free-lance writer and lecturer based in North Melbourne, Victoria, Australia. He was resident scholar at FEE this past summer.

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reader's appetite for more. The "target audience" is obvious: the curious layperson in general and college student in particular.

Where, I wonder, are comparable volumes making our case? Many defenders of liberty say, and I believe correctly say, that really there is little to be said against Marxism-Leninism that has not already been said.[3] Yet the young undergraduate has to be "lured" into tackling the demanding works on our side. A dynamic professor can so lure his or her students, but such professors are not, alas, as plenteous as soybeans. *There is, I submit, a dearth of volumes presenting in an interesting and highly accessible form the essential case for economic and political liberty and against Marxist-Leninist teachings.* A churchman, perusing the hymnals of his day, lamented that the devil seemed to have all the good tunes. My lament is that the Marxist-Leninists and other statists are showing a more imaginative determination to communicate their ideas than are we.

I think I perceive the problems. Our case cannot, without gross distortion, be reduced to slogans scrawled on walls and messages adorning our cars. Simply, we *do* face problems in popularizing and creating interest in our case.

But so do our opponents. Many sophisticated Marxist-Leninists deplore the "documentary comic books" to which I have referred. They dismiss them as unsophisticated and crude. The books can be torn to shreds by anyone with even a passing knowledge of the thinkers I previously cited. Yet our opponents have taken the risk. They picked out a target audience. They hired an able illustrator. They worked and reworked the text. They carefully included references to the best materials making out their case. They calculated that if sufficient interest were created, readers exposed to a rebuttal of the arguments presented in the comic books would turn to the more sophisticated works cited in search of answers. They showed imagination, embraced risks, and got on with the business of retailing ideas and generating enthusiasm for these ideas.

The Church and the Market

Consider another fairly specific target audience: clerics and churchpeople. I do not receive all the mailings emanating from my denomination's headquarters. The Division of Social Justice has written me off as a lost cause. And I didn't endear myself to those employed at the Uniting Church's city offices when, in print, I described the impressive edifice occupied as the black hole of the Uniting Church, emitting no light and absorbing everything coming within range. Still, I do receive a goodly number of mailings from

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that eerie place, and value the stamps, which I save for a charity. I receive mailings from my nation's equivalent to your National Council of Churches, and mailings from the World Council of Churches.

Some of the material is innocuous. Much of it, however, is littered with specifically economic claims. Again and again I learn, for example, that the poverty of so-called developing nations is caused by past plundering and present exploitation by developed nations.

Specifically the Marxist-Leninist theories have "trickled down," so to speak, and are being promoted, whether intentionally or unintentionally, through pamphlets, study guides, and learning kits addressed to clerics in particular and churchpeople in general. Men and women using these materials absorb an entire conceptual apparatus, learning to use words such as "justice," "equality" and "rights" in a way prejudging the case for economic and political liberty.

What materials are available, specifically addressed to churchpeople, presenting the case for the free market in a free society in a highly accessible, interest-creating way? Edmund A. Opitz has penned an admirable volume entitled, *Religion and Capitalism: Allies, Not Enemies*, and more recently both the Lutheran theologian Robert Benne and the Roman Catholic theologian Michael Novak have written and edited volumes primarily addressed to churchpeople and informed by theological subtlety and economic sagacity.[4] There are also, I know, not a few works defending economic liberty, and sometimes political liberty, in the context of what one might call a fundamentalist theological stance.

Yet there remains a gap. There is a desperate need for materials, specifically directed to church leaders and church members, which are not far removed from the simplicity, brevity, and accessibility of the Marxist-Leninist "documentary comic books" to which I have referred.

Wakening Interest in Liberty

I am not suggesting for a moment that the volumes penned by such thinkers as Edmund Opitz, Robert Benne, and Michael Novak are irrelevant to the economic education of clerics and churchpeople. They are vital for such education. I know, for example, of three clergymen who, after reading Edmund Opitz's book, substantially modified their economic and political attitudes. Yet these people had to be cajoled into reading the three hundred pages of the work. Attractive, brief, simple materials, the purpose of which primarily is to waken an interest and whet an appetite scholarly works can satisfy, are urgently required.

Students of the freedom philoso-

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phy would, I submit, do well to meet, think together, and *list* specific target groups for materials making out the case for economic and political liberty. The specific interests and concerns of these groups should be identified. Then comes the preparation of direct, uncluttered, relatively unsophisticated materials making a case for liberty related to these interests and concerns and, even more importantly, leading readers to substantial works elaborating and filling out that case. I know some of us have done this before. We have not, however, done it well enough. Opponents of liberty have been more creative, more imaginative, more venturesome than have we. The time is ripe for us, in our vitally important work of economic education, to start "outsmarting" our opponents. In this way the journey from where we are to our desired destination is furthered.

The Non-Rational

Allied to the on-going work of economic education, is the task of exploring *nonrational* factors affecting people's attitudes to economic and political liberty. Much has been written and said about nonrational factors predisposing men and women *against* the free market in a free society. In my article entitled, "Catch the Little Foxes!"[5] I discuss some of these: snobbery, a fear of so-called elitism, and a confused moralism. Ludwig von Mises brilliantly addresses the issue in his volume, *The Anti-Capitalistic Mentality*, and a collection of essays edited by Ernest van den Haag—*Capitalism: Sources of Hostility*—further explores the problem.[6] A volume from the pen of Igor Shafarevich, a Russian dissident dismissed in 1977 from his teaching position in mathematics at Moscow University, throws a great deal of light on the anti-capitalist mentality, and I recommend the book—*The Socialist Phenomenon*[7]—to you. Inasmuch as useful materials dissecting nonrational sources of opposition to the free market in a free society are so readily available, I here merely wish to indicate two factors we do well to remember.

First, we delude ourselves if we believe that we can carry our case merely by referring to self-interest. The very self-interest of many men and women *within* the statist apparatus—politicians, government officials, bureaucrats, privileged businessmen, unionists, and intellectuals, and a plethora of men and women on the receiving end of so-called "wealth transfers"—does *not*, in the short term, lead them to oppose the *status quo* and to start working for economic and political liberty. If the "short term" can reasonably be expected to hold for their lifetime, there is no *rationally compelling* reason to consider long-term consequences.

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This does not mean that appeals to self-interest are inappropriate, but such an appeal is most rationally addressed to people *outside* the statist apparatus and whose enforced labors provide the goods and services consumed by net tax beneficiaries. We can, perhaps, remind net tax beneficiaries that self-interest dictates some limits to the numbers they admit to their privileged ranks and the burdens they place on the shoulders of those laboring to support them. If we are addressing people whose moral stance leads them to consider the well-being of all, then clearly arguments emphasizing overall utility and long-term consequences are fittingly used. *Yet the sooner we acknowledge that individual self-interest can dictate opposition to economic and political liberty, the better.*

Second, we likewise delude ourselves if we assume that all people unambiguously desire individual liberty for themselves. A perusal of Erich Fromm's *Fear of Freedom*[8] can do much to shatter this delusion, and if Fromm fails to convince us, the case argued in Dostoevsky's *The Brothers Karamazov* by Ivan in the section entitled "Legend of the Grand Inquisitor" should do the trick.

Better than any reading, however, is a modest exercise in self-analysis. Is there not that within each of us that yearns for a "security" the free market in a free society cannot give?

In my language, there is that within the human psyche which yearns to be carried through life and protected, much as a fetus is carried and protected in the womb. There is to be sure another voice, a voice saying, "Son of man, stand on thy feet," a voice saying, "Take up thy stretcher and walk," a voice luring men and women to leave the secure, predictable, responsibility-free life of slavery in Egypt and journey through a wilderness toward the promised land of liberty. *This* voice, I believe, is both deeper and stronger than the voice whispering of a security we in truth can know only in the womb or in the tomb. *Yet for all that, we are ill-advised to pretend that in getting from where we are to where we want to go, we can simply assume the existence of a universal, unambiguous desire for individual liberty.* The human predicament is characterized by an ambiguity and a complexity hinted at both by depth psychology and high religion, and that ambiguity and complexity must not be ignored.

Making Freedom Exciting

There is a third and final factor to which I would refer in considering nonrational components of people's attitude to economic and political liberty. A.N. Whitehead, in his little-read volume, *The Aims of Education and Other Essays*, repeatedly and

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unashamedly refers to the centrality of *imagination* in the educative process, and speaks of the able teacher as a person who "keeps *romance* alive in his pupils" and kindles an appreciation of "the beauty of a mathematical argument."[9] The business of "getting there"—the task of moving toward our destination of an authentically free market in an authentically free society—demands not simply dedicated intelligence but also infectious enthusiasm. Bluntly, we need fire in our bellies as well as ideas in our heads and facts at our fingertips.

Read Michael Harrington. Read Marx and Engels. Read almost any socialist tract. There is a passion, a cry of moral outrage, a note of indignation informing these works. It is clear that the authors *care* about the cause they are defending. In comparison, most volumes defending economic and political liberty are "super-cool." In their determination to be reasonable, the authors suppress the voice of rational anger and heartfelt emotion.

It is of vital importance that you and I continue to refine our conceptual apparatus, clarifying for ourselves and others what we mean by such terms as "liberty," "rights," "equality before the law," and so on. We must keep at the task of refining our arguments. We must argue our case, and argue it honestly and well. Yet, while avoiding theatricality and contrived emotion, we need not—we must not—fear our feelings. It is cause for outrage that socialist economies misallocate resources and condemn multitudes to destitution. It is cause for anger that intrusive governments condemn the marginally skilled to involuntary unemployment, inflate the currency, feed and foster envy, breed factionalism, and pass off theft as an exercise in so-called "social justice." Our cause—the cause of liberty—is and should be a source of joy and of vitality and of enthusiasm.

We defend liberty not simply because we have found arguments that convince us, but because we glimpsed a vision that inspires us. If we seek to attract others to what we so yearn for and cherish, infectious enthusiasm must accompany the reasoned case we elaborate. No juggling of concepts, no development of arguments, no recital of figures can, in itself, win fellow pilgrims on the pathway to liberty. Thought must be stimulated, yes; but so must feeling. Tennyson said it well:

> Let knowledge grow from more to more,
> But more of reverence in us dwell;
> That mind and soul, according well,
> May make one music as before—*but vaster.*

Compromise: Yes or No?

A contrast frequently is drawn between *conviction* and *compromise*. We preachers frequently draw it.

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The question we must consider is whether, in "getting there," some measure of compromise is acceptable. Should we, for example, advocate and agitate for specific economic and political reforms which, while from our point of view partial and imperfect, nonetheless bring us *nearer* to the destination we desire to reach? The question is easier to ask than it is to answer, and any person who fails to see any problem has, in all probability, not really understood the full implications of the question. I can only, therefore, proffer for your consideration my own tentative conclusions.

"Getting there" involves *selling* some ideas. While a plethora of selling techniques are available, I have a soft spot for the manufacturer who distributes samples of his product. His confidence that consumers will find his product more to their liking than alternatives is itself appealing, and if his product *is* as good as he believes it to be, future sales are assured. Can it not be argued that unless and until men and women actually see that the cessation of governmental activity in specific areas of their nation's economic life leads not to disaster but to an improvement of their own situation, the total cluster of ideas and ideals we are attempting to sell will meet considerable sales resistance?

Yet there is another side. Noble ends do not justify immoral means; indeed, the means we adopt not infrequently determine the ends we get. Again, might not measures improving the workings of a fettered economy, or increasing the efficiency of an intrusive government, *lessen* people's discontent and delay rather than hasten the advent of a free market in a free society? Is not an efficient intrusive government or an efficient bureaucracy worse, from our point of view, than their inefficient counterparts? Nonetheless, I come down on the side of what I call calculated and principled compromise. I can best explain what I mean by focusing upon specific measures.

Compromise versus Conviction

One. A "compromise" such as the funding of schooling by vouchers or tax credits is acceptable because it facilitates rather than complicates a further move totally entrusting schooling to the market. The myth that schools subject to market forces could not and would not satisfy the objectives of schooling is so deep-seated that *only* the demonstrated consequences of deregulation can explode it. The decentralization and diversification of schooling which would result from deregulation make it easier rather than more difficult to contemplate the possibility that schools could be funded by fees rather than by federal, state, or local tax revenues. It is true that these

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gains might partially be offset by a lessening of parental and community dissatisfaction with schooling as it now is, but that dissatisfaction is *not* immediately related by most people to the root cause of that dissatisfaction, namely, the involvement of government with schooling.

Two. While defending and supporting programs of tax reform which lead to the reduction of tax revenues and the consequent cutting of government expenditures (and *only* programs of tax reform which lead to these objectives merit consideration) the advocate of economic and political liberty *must* oppose all forms of taxation which are hidden and which *ipso facto* are "painless." While the defining freedom philosophy principle of equality before the law favors uniform rather than progressive taxes, a "progressive tax" where the highest marginal taxation level is, say, 20%, is "better" than a "uniform tax" of, say, 40%.

Most importantly, if joining forces with so-called "supply-siders" advocating cuts in the marginal tax rate, defenders of economic and political liberty must *not* claim that such cuts would result in *increased* government revenues and defend the cuts by reference to this claim. Any increase in taxation revenues resulting from cuts in the marginal tax rates must be perceived as grounds for *further* cuts.

Three. The "myth-exploding" consequences of even a partial entrusting of schooling to the market noted above, justify support for any program of "privatization." In fact a stress on the educative nature of such programs suggests a political strategy for privatization. Our primary objective is *not* the "privatization" of any particular industry, but *the restoration of all government trading and operating activities, save those relating to defense against external and internal aggression, to the market.* It is therefore utterly vital that we *maximize the probability of consumers benefiting from initial programs of privatization.* The "order of privatization" will be dictated simply by the *anticipated value of net benefits to consumers.*

Four. While gradualism is appropriate to some politically orchestrated reforms (e.g., the restoration of schooling to the market through the *interim* device of deregulation by vouchers or tax credits), such a process is singularly inappropriate if other objectives are to be realized. Bluntly, measures which precipitate the inevitable unemployment resulting from a serious misallocation of labor cannot and must not be introduced piecemeal. Massive but short-lived unemployment is politically preferable to less extensive but prolonged unemployment. Again, considerations of both logic and

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"fairness" dictate that some measures (e.g., the abolition of laws extending special privileges to unions) be accompanied by other measures (e.g., the abolition of subsidies, price-maintenance schemes, *et al* advantaging privileged business interests).

I do not pretend that these suggestions in any way resolve the tension between compromise and conviction. Indeed, in the last analysis my prayer is simply that God keeps sharp the stab of conscience and thereby infuses all compromises with experienced bitterness until the advent of an authentically free market in a free society minimizes the pressure upon anyone to compromise his or her convictions. Our dilemma is that to move toward our destination we have to act, but the world in *which* we act is so much a creature of interventionism that pristine purity is not a real option.

Conclusion

Yet I end where I began. Central to the business of "getting there" is the purpose for which this Foundation was created: economic education. Ideas alone will not bring us to our destination, but men and women excited by the ideas enshrined in the concept "liberty" and dedicated to the furthering of these ideas can do it. To the question, "How much can the world as it is be changed?" I answer in a single word: *Enough.* It can be changed enough to liberate a process which, working in and through men and women like us, can bring us nearer to the realization of our dreams, our hopes, and our prayers for our children and our children's children.

—FOOTNOTES—

[1]L. Carroll, *Alice's Adventures in Wonderland* in *The Annotated Alice*, ed. Martin Gardner (New York: The New American Library, 1960), p. 88.

[2]*Marx for Beginners* and *Lenin for Beginners* (New York: Pantheon Books, Pantheon Documentary Comic-Book Series, 1974, 1976).

[3]See M. Bakunin, *Statism and Anarchy*; E. von Böhm-Bawerk, *Capital and Interest*; H. B. Acton, *The Illusion of the Epoch: Marxism-Leninism as a Philosophical Creed*; R. Aron, *In Defense of Decadent Europe*; L. Kolakowski, *Main Currents of Marxism: Its Origins, Growth and Dissolution*; L. von Mises, *Omnipotent Government, Socialism*, and *Human Action*.

[4]See E. A. Opitz, *Religion and Capitalism: Allies, Not Enemies*; R. Benne, *The Ethic of Democratic Capitalism*; M. Novak, *The Spirit of Democratic Capitalism*.

[5]J. K. Williams, "Catch the Little Foxes!" *The Freeman*, October, 1985.

[6]L. von Mises, *The Anti-Capitalistic Mentality* (South Holland, Ill.: Libertarian Press, 1972); E. van den Haag, *Capitalism: Sources of Hostility* (New Rochelle: Epoch Books, 1979).

[7]I. Shafarevich, *The Socialist Phenomenon* (New York: Harper and Row, 1980).

[8]E. Fromm, *Fear of Freedom* (London: Routledge Kegan Paul, 1960).

[9]A. N. Whitehead, *The Aims of Education and Other Essays* (London: Williams and Norgate, 1929).

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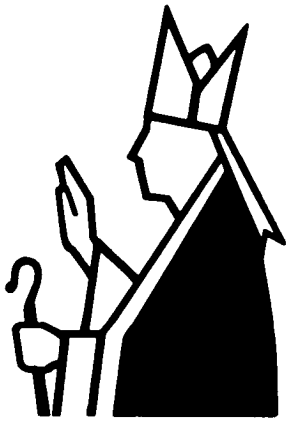
Charles W. Baird

On the Bishops and the Market



THE second draft of the controversial pastoral letter of the National Conference of Catholic Bishops on the American economy (hereinafter, the Pastoral) was recently released. While it acknowledges some of the successes of the American free enterprise system, it is seriously flawed by fundamental confusions concerning the nature of the voluntary exchange economic system.

The bishops have adopted an outmoded view of the relationship between the government and the market. On the basis of that economic and political analysis, the bishops offer "solutions" based on a government-directed command economy. These solutions have failed in the past, are failing now, and will fail wherever they are tried. The only feasible solution to the problems with which the bishops are concerned is to eliminate the government enactments that cause those problems.

A second fault of the Pastoral is its repeated instances of the fallacy of composition. The bishops discuss at length the implications of the Gospel for the choices that individual Christians ought to make. They then, without giving any logical justification for doing so, immediately leap to conclusions about what government ought to do. God created man with free will. The bishops seem to want to replace free will with governmental coercion.

Dr. Baird is Professor of Economics at California State University at Hayward.

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The Outmoded View

In the 1950s and 60s most mainstream economists taught that a free market economy works well only under very unrealistic conditions called "perfect competition." The three most important of those conditions are that (1) each buyer and each seller must have only tiny market shares, (2) all buyers and sellers always know all relevant information, and (3) there are no unpaid-for spillover effects of exchanges between individuals. Since those conditions obviously do not hold, economists taught, the real world is beset with "market failure." Market failure provides the rationale for government to go beyond its traditional role of referee or night watchman enforcing the rules of voluntary exchange. It justifies government intervention in the exchange process to make things come out more nearly as they would if the conditions of perfect competition actually existed.

The Modern View

In fact, the conditions of perfect competition are completely irrelevant to the assessment of the merits of the free market. Those conditions were the creation of economists who wanted to express their theories in mathematical terms. In so doing, those economists practiced what F. A. Hayek, the 1974 Nobel Prize winner, calls "scientism"—the adoption of the methodology of the natural sciences in a field of inquiry where it is totally inappropriate, and, in the case of economics, destructive of clear thought.[1]

The chief advantage of a voluntary exchange economy over a command economy is that the market process provides a way systematically to discover and correct economic error.[2] For reasons I explain below no government can possibly duplicate or improve upon that discovery and correction mechanism.

If we make the value judgment that each person is as significant as every other person, a successful economy must be defined as one in which the pattern (quantities and qualities) of production is constantly adjusted to keep up with the pattern of what the people in the economy want to be produced. Moreover, it is one in which all the people in the economy are free to participate on the basis of their own preferences, and their own knowledge, alertness, and abilities, subject only to the condition that they do not initiate any involuntary exchange (e.g., theft, fraud, coercion).

When the pattern of production is inconsistent with what people want, resources can be profitably redeployed by directing them away from where they are valued less toward where they are valued more. Legally enforced private property rights to profits earned through voluntary ex-

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change switches on entrepreneurial alertness to profit-making opportunities.[3]

Interventionism Does Not Work

There are two reasons why government intervention, regulation, or control cannot improve upon, or even duplicate, the performance of an economy based upon voluntary exchange: the *knowledge problem* and the *political problem.*[4]

First, the knowledge that is relevant to the successful performance of an economy exists nowhere in its entirety. The relevant knowledge—of individual tastes and preferences, individual productive capacities, resource availabilities, and potential for technological innovation—exists in small bits and pieces in the minds of the millions of individuals to whom the knowledge pertains. There is simply too much of it for any government agency to assemble and keep up to date. Moreover, much of the relevant knowledge (e.g., tastes and preferences) is inherently subjective and therefore nonquantifiable.[5]

Second, the political facts of life are such that no government agency will be run on the basis of a dispassionate weighing of social costs and benefits. Even if there were no knowledge problem, no government agency would use the relevant knowledge in an objective and efficient way. We are all painfully aware of the disproportionate influence of special interest groups on political decision-making. What counts is political advantage, not the generalized public interest. And this must always be so, no matter who is involved in the process.

The modern theory of public choice begins by noting that the typical person in government is just like the typical person in the private sector—he or she acts purposefully to achieve his or her own goals.[6] We all attempt to do the best we can for ourselves as we see it within the constraints that confront us. The chief goal of the typical politician is to get re-elected. The chief goal of the typical bureaucrat is to secure larger and larger budgets for his agency. The chief goal of the typical special interest group is to secure more and more benefits. So an "iron triangle" is formed. Politicians, recognizing the value of a highly organized, politically active, special interest group at election time, attempt to buy favor with such groups by voting for programs that confer focused benefits on the groups at the expense of the general taxpayer.

A single taxpayer's share of the tax burden that comes from any one program is tiny, but a single beneficiary's share of the benefit is large. Thus taxpayers will not oppose a specific program as intensively as its beneficiaries will support it. Taxpayers overlook a politician's support

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of programs that focus benefits on others as long as the politician also supports the program that focuses benefits on them. Government inexorably grows, even though very few programs enjoy genuine informed majority support.

People in the private sector also attempt to do the best they can for themselves subject to the constraints they confront. But private sector constraints are different from government sector constraints. In the private sector there is constant pressure to be efficient. Employees and suppliers are constantly monitored by management whose eyes are fixed on the bottom line. Monitor-managers are forced to care about efficiency, even when they are not the owners of their enterprises, by the market for corporate control—hostile takeovers of poorly-run firms.[7] Thus in the private sector people find, perhaps to their discomfort, that the only way successfully to pursue their own goals is constantly to strive for efficiency in all their economic activities. They will make mistakes, but there is a strong incentive to discover and correct the mistakes, and there is a reliable market process enabling that discovery and correction.

Humans are a fallen race. Ever since we were expelled from the Garden we have been confronted with scarcity—i.e., there are insufficient resources to provide us all with all that we would like to have. Both as individuals and collectively we confront tradeoffs. In order to get more of one thing, we must be willing to forgo some of something else. Every decision carries a cost. There is no such thing as a free lunch.

That is true for individuals, and it is also true for government. When taxes (open or disguised) are imposed, taxpayers forgo the use of some of their means which are transferred to others by government force. Nothing is free. Government cannot re-enact the miracle of the fishes and loaves.

Since every individual and collective choice involves a cost, the only way that we can get the most out of the scarce resources with which God has endowed us is constantly to strive to minimize the cost of all our actions—i.e., constantly to strive for efficiency. We are commanded to be good stewards of our endowments. The private property, voluntary exchange economic system is the only system that automatically provides the means and the incentives to do so.

Economic Rights

In the Pastoral the bishops advocate the enactment of what they call "economic rights." By this they mean that the government should pass laws which give each person in the country a legally enforceable entitlement to housing, food, employ-

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ment, education, and so forth. They recommend that when a person or a group cannot secure these things for themselves through voluntary exchange, government should provide them. But government cannot create out of nothing the means to pay for these things. Thus the bishops are saying that taxpayers in general ought to be bound under secular law to pay for them. The "rights" prescribed by the bishops for some impose legally enforceable (by secular government) duties-to-provide upon others.

Rights Must Be Universal

As long as we are discussing secular law and the actions of secular government we ought to be more careful about what is meant by "rights." A "right," in the sense that the authors of the U. S. Constitution understood that word, is an entitlement which all people can hold and exercise simultaneously without contradiction.[8] For example, suppose we say that person A has a right to food in the sense that food must be made available to A no matter what A does. We must also be saying that there is at least one other person, B, who has the obligation to make the food available to A. But then A and B do not have the same food-related right. The alleged right requires government to take from one person and give to another person.

The only food-related right which all humans can hold identically and simultaneously, and therefore the only one that is a legitimate human right, is the right to make offers to engage in voluntary exchange with each other concerning food (i.e., offers to give, receive, buy, or sell). A person has a right to make any offer on any terms he or she wishes, but no person has the right to compel any other person to accept the offered terms. The legitimate role of secular government is limited to the enforcement of the rules of voluntary exchange. That includes the punishment of those who engage in involuntary exchange.

The same is true regarding jobs, housing, education, or anything else.[9] Logically, one person's legitimate human right cannot impose a duty upon another person to perform any positive act. To be legitimate, a right must be universal. The only duty that a legitimate human right can impose is the duty to *refrain* from a particular kind of positive act—viz, involuntary exchange. This is a negative duty. Rather than specifying what a person must do, it specifies what he or she must not do. To engage another person in involuntary exchange is to trespass against the legitimate human rights of that person.

In sum, the bishops' call for economic rights is a call for a set of secularly enforced obligations to per-

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form positive acts (surrender of means) on some people for the benefit of some other people. It is not a call for legitimate rights at all. It is a call for privileges for some at the expense of others.

A Revised Parable: Good and Better Samaritans

I think the bishops have taken the wrong lesson from the parable of the Good Samaritan. In that parable the Lord taught that Christians have a God-imposed duty to *choose* to engage in charity. There is nothing in the parable that even suggests that there is any moral merit whatsoever in being charitable because the government forces you to be. Indeed, there is much throughout the Gospel narratives that suggests that such acquiescence does not qualify as charity at all. We are creatures with free will, and we are answerable to God only for the choices we make as we exercise that free will.

It almost seems that the bishops would have preferred a different version of the parable: the parable of the "Better Samaritan." In this version when the Samaritan discovers the victim of the robbery and assault he does not use his own means to help out. Instead, he rushes back to Jerusalem to urge the passage of a law that forces all travelers on the road between Jericho and Jerusalem to pay a traveler's tax to build a fund which can be used to ameliorate the suffering of all such victims. Having thus fulfilled his moral obligation to be his brother's keeper, he resumes his journey to Jericho confident that he now, just as the Levite and the priest, need not suffer any more interruptions.

Free to Choose

As a Christian I am bound to choose to be charitable to friends, acquaintances, strangers, and even enemies. In fact, millions of people *do* choose to be charitable each year. God established His Church and endowed the Apostles and their descendents with authority and responsibility to instruct the faithful in the choices that they must make if they are to attain salvation. He authorized no one to force people to make correct choices. The bishops' authority to bind and loose does not imply the authority to take away God's gift of the freedom to choose.

The choices humans have made have given rise to hunger, homelessness, famine, disease, war, and other tragedies too numerous to mention. Moreover, the disastrous consequences of our choices have always been greatest when those choices are enforced by secular government. Wicked choices of a private citizen who cannot wield the coercive authority of government never affect as many people as are affected by the wicked choices of those who can impose their choices through the ac-

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tions of the state. The most egregious recent examples of wicked choices, enforced by government, wreaking havoc on millions of innocents are the choices of Hitler and Stalin. The problem with them was not that they were fascist or communist. The problem was that they had the power to impose their choices on others.

A major point in favor of the voluntary exchange economic order is that it limits the scope and consequences of the choices that humans make. The United States is not a purely voluntary exchange economy. We have strayed far away from the political and economic philosophy of the authors of our Constitution, and it is precisely for that reason that we suffer from the economic problems the bishops so fervently lament.

Many of the proposals of the bishops would further diminish the scope of voluntarism and choice. For example, in #103 of the Pastoral the bishops endorse the so-called labor-law reform bill of 1978. Under that proposed legislation, which was defeated, unions would have been granted increased power to coerce unwilling workers into accepting union representation "services" and into paying for the privilege. The bishops justify their endorsement by, believe it or not, appeal to the freedom of association implied by the First Amendment.[10]

Similarly, in Chapter IV the bishops go on to endorse the concept of "industrial policy" whereby a tripartite authority made up of representatives of unions (not workers in general), corporations, and government would replace the market system with economic planning. The choices of consumers and producers in the marketplace would be overridden by this authority. The bishops presume that planners know better than consumers and producers what is good for the country. This particular form of economic organization is not new. It was exactly how Mussolini organized the Italian economy. Mussolini called it fascism, but it is more commonly called syndicalism or the corporate state. No matter what it is called, it is fraught with peril because it replaces the freedom to choose with naked economic force driven by the choices of a power elite.

Harnessing Self-Interest

In several places in the Pastoral the bishops seem to endorse that old Marxist canard: production for profit ought to be replaced with production for use. But production for profit *is* production for use.

Christ, of course, warned us against becoming captives of self-interest. He admonishes us as individuals to get our priorities in order, putting our development as members of His Body at the top of the list. He does not say that attention to self-

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interest is bad in and of itself, especially when looking after self-interest forces us to act in the interest of others.

In a voluntary exchange economy the natural desire of all people to pursue their individual ends is channeled into actions that benefit others. Apart from gifts, the only way that you can obtain income and wealth in a voluntary exchange economic system is to do things that other people value highly enough to be willing to pay you to do them. To repeat, production for profit *is* production for use. One can make profit only by producing what others find so useful that they are willing to pay a price for it that exceeds the cost of production. Each person is forced by the rules of voluntary exchange to be very "other directed." Each person must care very much about what other people want him or her to do.

By contrast, in a command economy a person who wants, for example, to spend his or her time painting abstract pictures doesn't have to worry about pleasing enough people to make a living at it. Rather, the natural attention of the would-be artist to his or her self-interest is channeled into attempts to secure tax subsidies. Taxpayers don't have to like that for which their taxes are spent.

The bishops endorse the principle of tax subsidy over consumer choice in their recommendations regarding bailouts for failing smokestack industries. As consumers, citizens have rejected the economic choices of producers in many smokestack industries. As a remedy the bishops would force those consumers, through the imposition of taxes, to act as if they approved those choices. The bishops thereby encourage producers, such as Lee Iaccoca of Chrysler, to ignore the interests of consumers and cater to the interests of politicians.

The Mirage of Social Justice

In the beginning of the Pastoral, the bishops assert that every perspective on economic life must be shaped by three questions: "What does the economy do *for* people? What does it do *to* people? And how do people *participate* in it?" A careful survey of history reveals at least one important truth: Societies that give a large scope to the voluntary choices of their members are more prosperous, just, and free than societies that override those choices with governmental coercion. It may be true, as the bishops assert, that the richest 20 per cent of Americans receive more income than the bottom 70 per cent combined. It is also true that the typical American living in what the federal government defines as poverty is immeasurably better off than the vast majority of human beings on earth. The American economy, based on much less involuntary

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exchange than the bishops wish to impose, has generated more wealth, and has distributed that wealth more widely, than any other economy that exists today or has ever existed. By their own criterion—the effect on the poor—the bishops ought to forswear their support of the command economy and promote the principles of voluntary exchange.

But a more fundamental point needs to be made about how the word "justice" is used.[11] "Justice" refers to the choices and actions of people. A tree, for example, is neither just nor unjust. Only people choose and act, and it is only those choices and actions that are just or unjust. A society is merely a group of people. It has no existential significance beyond the individuals that make it up. The choices and actions of society are merely the choices and actions of its individual members.

Sometimes individuals choose to act collectively through the adoption of such decision procedures as majority-rule voting, but it is still individuals who are acting. And it is still the choices and actions of individuals which are just or unjust. Nowhere in Holy Scripture are we told that anything other than individuals will be judged according to God's rules of just conduct. Since society, apart from its individual members, does not choose or act there cannot be any such thing as social justice or social injustice.

True Justice

It is what people, as individuals, do on the basis of the choices they make that is just or unjust. The justice or injustice of the end result of human actions can be determined only by examining those actions themselves. If just steps are undertaken each step along the way, the result has to be just. In philosophy this is called a process, rather than an end-state, theory of justice.[12] Applied to the question of distributive justice it implies that whether a given income distribution is just or unjust depends only on *how* that distribution came about, not on the pattern of the distribution itself. If it is the result of voluntary exchange, and only voluntary exchange, it is just. If it is the result of involuntary exchange (e.g., theft, fraud, or assault) it is not just.

The end-state theory of distributive justice adopted by the bishops implies that a person is not justly entitled, under secular law, to the portion of his voluntary exchange income that exceeds the average income received by other individuals. One is tempted to accuse the bishops of subscribing to a view of distributive justice forbidden by the Tenth Commandment.

Within a voluntary exchange economic order individuals are free to choose to live in communities organized on the principle of "from each according to his ability, to each according to his need." But they are not

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free to force others to do so. The Christian community described in *Acts* was such a freely-chosen community. The bishops may think that all people ought to choose to live in such communities, but they go beyond the authority of Scripture when they advocate forcing people to do so through the coercive power of the state. Caesar, after all, is due only that which is legitimately his.

In Conclusion

The bishops are disturbed by the suffering and injustice that they see in the United States, and they wish to recommend remedies. That certainly is their right—and their duty. They fail, however, to understand the principles of a voluntary exchange economic order. And because of that, they fail to see that their proposed remedies can only make matters worse. They apparently believe that the problems they so abhor arise because there is too little government action. They seem to consider the free market system as the source of all the problems. So they advocate less freedom and more coercion as the remedy. By proposing to move the American economy further away from the principles of voluntary exchange they guarantee that the same, or even worse, problems will still be around when it comes time for them to write another Pastoral.

A more promising solution to the economic problems that rightly concern the bishops and many other Americans would be to repeal all the legislated barriers to economic prosperity that have been enacted since the beginning of the New Deal and firmly to resolve not to make the same mistakes again.

—FOOTNOTES—

[1]F. A. Hayek, *The Counter-Revolution of Science* (Glencoe, IL: The Free Press, 1952), Part I.

[2]F. A. Hayek, "The Meaning of Competition," in *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948), Chapter V.

[3]Israel M. Kirzner, *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973).

[4]Don Lavoie, "Two Varieties of Industrial Policy: A Critique," *Cato Journal*, Fall 1984.

[5]F. A. Hayek, "The Use of Knowledge in Society," in *Individualism and Economic Order*, op. cit., Chapter IV.

[6]James M. Buchanan and Robert D. Tollison, eds., *Theory of Public Choice: Political Applications of Economics* (Ann Arbor: University of Michigan Press, 1972).

[7]Henry G. Manne, "Mergers and the Market for Corporate Control," *Journal of Political Economy*, April 1965.

[8]Roger Pilon, "Ordering Rights Consistently: Or What We Do and Do Not Have Rights To," *Georgia Law Review*, Summer 1979.

[9]Charles W. Baird, *Opportunity or Privilege: Labor Legislation in America* (Bowling Green, OH: Social Philosophy and Policy Center, 1984).

[10]Charles W. Baird, "Labor Law and the First Amendment," *Cato Journal*, Spring/Summer 1985.

[11]F. A. Hayek, *Law, Legislation, and Liberty*, Vol. 2, *The Mirage of Social Justice* (Chicago: University of Chicago Press, 1976).

[12]Robert Nozick, *Anarchy, State, and Utopia* (New York: Basic Books, 1974).

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William S. Kern

Catholic Social Teaching and the U.S. Economy:

A Hayekian Critique

In October of 1985 the National Conference of Catholic Bishops released a new draft of their "Pastoral On Catholic Social Teaching and the U.S. Economy." The Bishops seek to demonstrate, via a review of Biblical teachings, that certain ethical norms of economic life exist to which all men should adhere. As a result of their review of scripture, the Bishops conclude that a reorganization of the American economy is justified based upon the moral values of "social justice" and "economic rights." The reorganization would rely much more heavily than at present upon the techniques of economic planning and state intervention.

The social thought of Austrian economist and social philosopher Friedrich A. Hayek provides us with a basis from which to evaluate the position taken by the Church on these matters. The recent work of Hayek has centered upon an elaboration of the ethical principles of the market economy and a free society. In one of his earliest essays on the morals of a free society Hayek stressed the symbiotic relationship between morality and freedom. He wrote that "It is an old discovery that morals and moral values will only grow in an environment of freedom, and that, in general, moral standards of people and classes are high only where they have long enjoyed freedom." (1967, p. 23) At the same time he points out that the presence of certain moral values is a prerequisite for a free society. "We can add to this that only societies which hold moral values similar to our own have

William S. Kern is Assistant Professor of Economics at Franklin and Marshall College, Lancaster, Pennsylvania.

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survived as free societies." (1967, p. 23)

Among the requisite moral values, Hayek regards two as indispensable to a free society: "the belief in individual responsibility and the approval as just of an arrangement by which material rewards are made to correspond to the values which a person's services have to his fellows; not to the esteem in which he is held as a person for his moral merit." (1967, p. 232) It is one of the merits of the market that it accomplishes the latter of these states of affairs.

Morality and Freedom

Hayek also clearly recognized that while moral convictions are necessary for a free society to exist, not all moral principles are consistent with a free society. It might even be the case, paradoxically, that freedom may lead to the growth of values which are incompatible with the preservation of a free society and a market economy. (p. 230) Furthermore, in his view it was in large part because of the rejection of certain moral principles that a free society became possible, often in opposition to religious teachings:

> Religious prophets and ethical philosophers have of course been mostly reactionaries, defending the old against the new principles. Indeed, in most parts of the world the development of an open market economy has long been prevented by those very morals preached by prophets and philosophers, even before governmental measures did the same. We must admit that modern civilization has become possible largely by the disregard of those indignant moralists. (1979, p. 165)

In his most recent work, Hayek has emphasized that the concepts of "social justice" and "economic rights" are among those that are incompatible with freedom.

Hayek accepts the idea that government has a legitimate role to play in protecting the destitute by securing some minimum standard of living for those unable to support themselves in the market. Unfortunately, the concept of social justice has never been nor is it likely to be restricted to this limited definition in actual practice. Because the concept is so ill defined it imposes no limits on the claims which can be made under this banner. In practice the concept of social justice is likely to become "a mere pretext for claims for privileges by special interests." (1976, p. 140) Though the idea may have been intended only to apply to the most unfortunate, the concept has since been adopted by other groups who do not get as much as they think they deserve or groups that feel threatened in their present positions. By the measures it takes, government "will produce opinions and set standards which will force it to continue on the course on which it has embarked." (p. 143) The result is that "every single act of this kind will

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give rise to demands by others to be treated on the same principle: and these demands can be satisfied only if all incomes are thus allocated"—in effect, eliminating the market as a distribution mechanism. (p. 142)

If income distribution is no longer to be performed by the acts of voluntary exchange and contract through markets, what will substitute as a method of determining wages and the allocation of labor among occupations? The answer must be that government will perform these tasks. Thus the ultimate sacrifice to be paid for the attainment of social justice and economic rights is freedom.

The Mirage of Social Justice

Hayek attributes the increasing popularity of the idea of social justice to a confusion in thought about the nature of morals. The concept of social justice is relevant in that which he terms the "small group." The model of the small group society is that of a family, small village, or tribal relations. Within such a group individuals may have an extensive range of specific positive obligations. It may well be a recognized duty to assist others of the group and adjust one's actions to the needs of the group.

As Hayek describes it, a free society became possible only by reducing one's specific obligations toward others of one's own small group while at the same time conceding to others outside of the small group "the same protection of rules of just conduct which apply to the relations of the members of one's small group." (1976, p. 89) But this process of the extension of rules of just conduct to others "requires an attenuation of at least some of the rules which are enforced in the relations to other members of the small group. If the legal duties towards strangers are to be the same as those towards one's neighbors, the latter duties will have to be reduced to such as can be applied to the stranger." (1976, p. 89)

Given these circumstances, Hayek argues that there is a fundamental difference between moral behavior in the Open Society and that of small group life.

> In the small group the individual can know the effects of his actions on his fellows, and the rules may forbid him to harm them in any manner and even require him to assist them in specific ways. In the Great Society many of the effects of a person's actions on various fellows must be unknown to him. It can, therefore, not be the specific effects of the particular case, but only rules which define kinds of actions as prohibited, which must serve as guides to the individual. (1976, p. 90)

Hayek concludes from this that the moral order of the Open Society is defined by a system of impartial rules of just conduct. This implies, he asserts, that the concepts of social justice and economic rights do not

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have meaning or definable content in such a moral code because "there are no principles of individual conduct which would produce a pattern of distribution which as such could be called just, and therefore no possibility for the individual to know what he must do to secure a just remuneration of his fellows." (1976, p. 70) Hayek has described the concept of social justice as an "atavism" and has regarded the attempt to extend the concept's influence in social reform as both misplaced and even dangerous. Such value concepts, imposed by force through economic planning and other forms of state intervention, are incompatible with the moral code that the market system and a free society require.

One of Hayek's most important messages is that one of the hardest lessons we must learn is that immoral consequences may well result from morally inspired efforts. Our review of Hayek's views on the issues of social justice and the morals of the free society reveals two things. A free society possesses a moral code. That moral code rests upon the ideals of individual responsibility, cooperation through voluntary efforts, and preservation of individual freedom. In contrast, the legal order that would have to be imposed to secure the results required by the standard of social justice would demand the sacrifice of these moral ideals.

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IDEAS ON LIBERTY

F. A. Hayek

ECONOMIC ACTIVITY provides the material means for all our ends. At the same time, most of our individual efforts are directed to providing means for the ends of others in order that they, in turn, may provide us with the means for our ends. It is only because we are free in the choice of our means that we are also free in the choice of our ends.

Economic freedom is thus an indispensable condition of all other freedom, and free enterprise both a necessary condition and a consequence of personal freedom.

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Michael Adamson

The International Debt Problem: The Case of Argentina

THE government of Raul Alfonsin inherited a nation burdened with massive economic problems when it was elected in December of 1983. Seven years of military rule had all but destroyed a once growing economy under the machinations of the state. During the period of military rule, the government tremendously increased its foreign borrowing, from $8.3 billion in March, 1976 to $43.6 billion in December, 1983.[1]

The Argentine situation is one example of a larger problem: the incurrence of debt worldwide by government. Since August 20, 1982, when Mexico announced that it could no longer meet its debt service payments, some 30 nations have renegotiated terms on up to $100 billion of external debt. Argentina itself declared a moratorium on its debt principal late in 1982. Interest payments, which consume roughly two-thirds of Argentina's annual export earnings, were refinanced in March, 1984 by a package deal involving the governments of Brazil, Colombia, Mexico, and Venezuela so that American commercial banks would not have to list their Argentine assets as nonperforming. Today, the Alfonsin government quibbles with the International Monetary Fund (IMF) over austerity programs which enable Argentina to borrow more money from the Fund. Because the strength of the dollar makes prices of imports to America relatively cheaper, the so-called "debt crisis" has abated temporarily. Yet the only solution to the problem—the market solution—has not been applied. When the relative value of the dollar falls (it is presently overvalued against most industrial-nation currencies), the debt problem will again become a major issue.

Michael Adamson is a graduate business student at Arizona State University.

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The idea behind many popular solutions to the sovereign debt problem (borrowing by government) is more government intervention in the form of continued capital flow through some IMF arrangement or similar mechanism until the debtor nation is "stable" enough economically to be able to accumulate sufficient dollars from the exportation of goods to meet its obligations. Such IMF-type austerity plans may avert the political repercussions to government of making the necessary adjustments to a market economy, but, through a misallocation of resources, they exacerbate the problem in the long run.

A solution to the debt problem requires a market system based on the idea of private property rights. The approaches to the problem taken by the IMF are not producing, nor will they produce, an answer. IMF programs are matters of short-term adjustment, the goal of which is to buy time for nations to solve their economic woes. They are, in fact, a sort of protectionism which, in the end, subsidizes the interventionist policies of the debtor nations. They also rely on a macroeconomic approach by government to adjust such items as unfavorable balances of trade by fine-tuning monetary and fiscal policy in hopes of finding a way out of the woods, so to say. This assumes that the state is somehow capable of planning equitably and efficiently on behalf of millions of individuals it has deemed incapable of pursuing their own self-interest. Thus, many commentators have advocated an expansion of IMF quota limits, evidently unconcerned about the fact that it is individual taxpayers who must foot the bill for the programs of the IMF and World Bank.

Several nations, including South Korea and Taiwan, are servicing substantial debt requirements on the strength of relatively strong market economies. Yet, when a nation such as Argentina has a debt service problem as a result of intervention in the economy by the state, the IMF typically proposes a slower growth austerity program entailing exporting goods and accumulating dollars with which to service the debt. This so-called trade surplus is generally secured by restricting imports. By not regarding trade as a two-way exchange in which both parties benefit when it is done voluntarily, the individual is made to suffer as he becomes less well-off materially. As barriers around free trade are constructed, the problem grows.

The Growth of the Problem

Today's debt problem in general can be traced to the reaction of interventionist governments to economic changes in the 1970s. The initiation of floating exchange rates in 1971 was followed by a decline in the relative value of the dollar, which fa-

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cilitated the expansion of trade between the United States and many of the so-called developing nations. Governments, such as Argentina, financed this expansion largely by borrowing external funds. These increasing debt levels were expected to be serviced through continued economic growth.

The oil-importing developing nations adjusted to the OPEC oil price increases of 1973 by borrowing additional funds. These loans, made from "petrodollars" accumulating in American commercial banks, were considered to be of little risk, as economic growth and a weak dollar increased export earnings from which the debt could be serviced.[2] It should not surprise anyone, then, that from 1974–80, many governments used these borrowed funds to expand public expenditures and exports substantially at the expense of capital formation.[3]

Real interest rates turned sharply positive in 1978, as the governments of Western Europe, followed by the United States, began to adopt restrictive monetary policies to reduce inflation. In addition, terms of trade fell significantly from 1979–82, as recession was accompanied by a rise in protectionist trade measures. With oil prices increasing again in 1979, governments were strained to meet their debt service obligations and by 1982 the banking system was on the verge of financial collapse.

The Case of Argentina

The case of Argentina illustrates the distortions created by state interventionism in the market economy. From 1973–84, public expenditures expanded enormously. To finance this expansion, the government resorted to deficit spending. From 1973–82, these fiscal deficits averaged 5.2 per cent of gross domestic product (gdp).[4] They were largely financed through borrowing abroad.

The growth of the state and the debts which it incurred eroded the base of real saving and private investment. The state was becoming the sole investor. However, the absence of a market test for the state allowed it to waste a large amount of resources on prestige and ill-considered projects, which was done flagrantly by the military government.[5] Accounting was so poor that much of the debt was not even registered in the Central Bank.[6] Mr. Alfonsin and his elected Radical Party inherited the world's highest inflation rate and its third highest sovereign debt in 1983.

From 1976–79, the military tried certain steps to solve Argentina's economic woes. Consumption of beef and grain was restricted, while exports of both were increased.[7] Real wages fell as government fixed wages while the market determined prices. In response to the unpopularity of these policies, the govern-

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ment increased the money supply. Thousands of Argentines then converted their pesos into dollars or other currencies to move out of the country. Capital flight was extensive; some $11 billion was moved into foreign bank accounts.[8] Roughly half of the proceeds from loans to Argentina were reinvested abroad and remain there because economic chaos continues at home.[9] The gdp in 1983 was lower in real terms than it had been eight years earlier.[10]

Mr. Alfonsin did not apply the market solution to the economy. Instead, he promised that the government would fight inflation and pull business and labor out of the recession with easy credit and real wage increases.[11] Hundreds of state-owned companies (which composed roughly 60 per cent of industry in terms of output) were to be closed or sold and government spending was to be cut.[12] The actual program was limited to price controls on selected consumer items and a week-long ban on the sale of beef. Despite efforts to peg wages to prices, prices have risen by as much as 30 per cent per month.[13] In such an environment, investment is reduced in favor of consumption and economic development becomes impossible. Argentina's once modern industrial structure is in danger of becoming obsolete.[14]

Most recently, in June, 1985, the government announced new measures to fight inflation through a dramatic reduction in the budget deficit, mostly through new taxes and new tariffs. An indefinite freeze on prices and salaries is now in effect. A new currency, the austral, is being introduced, which it is hoped will be more stable than the peso, and will therefore draw out some of the estimated $4 billion worth of American dollars now being saved by Argentines in mattresses and other places.[15] None of these measures is a move toward a free economy. As long as the government commands the economy, Argentina's woes will continue, and with them the external debt problem.

In Conclusion

Attempts by the Argentine government to manage the economy have resulted in a distorted allocation of resources and a reduced standard of living for the people. Intervention in the form of wage and price controls, tariffs, public borrowing and investing, and inflation have neglected the ultimate user, the consumer, and have restricted his right to peaceful action. The society has become more and more stratified, with various groups in conflict with each other. The nationalistic policies of the state have retarded economic growth and will lead to ever lower *per capita* standards of living. The whole question of the proper role of government has been totally forgotten.

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As to the debt problem itself, there are only three ways out: 1) an internal adjustment economically and politically within Argentina entailing a return to the free market system, 2) an assumption of bad debt loss by the lending institutions if Argentina is unable to repay its loans, or 3) an assumption of risk on the part of the governments of creditor nations (and ultimately on their taxpayers).[16] Only alternative one insures that the problem will not recur. Alternative three is the method being employed today by the IMF and other government agencies to prevent the political consequences of alternative two.

If there is a return to a free economy, individuals, by pursuing their own self-interest, will direct resources to the production of those goods and services demanded by consumers. As consumer demands are satisfied, the returns to investment (profits) insure an ever expanding economy. Through this process, savings can be set aside which will service and eventually repay the debt. As government, reduced to its proper function of protecting life and property, is removed from the economic scene, its need and ability to borrow will be eliminated. The individuals, whom the government is required to protect, will pay for this service with some form of taxation. Whether Argentina, or any nation, will ever have the political means to apply the economic solution, is beyond the scope of this article. There are only two alternatives: a free economy based on private property rights or a command economy in which the state exists at the expense of the individual. The latter leads to economic chaos and social instability. Only the former results in peace and prosperity.

—FOOTNOTES—

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[6]Linda Schuster, "Politics Played a Crucial Role in Argentina Lending," *Wall Street Journal*, 17 May 1984, p. 34.

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[9]Larry A. Sjaastad, "International Debt Quagmire—To Whom Do We Owe It?" *World Economy* 3 (1983), 305–24.

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[11]Speck, *op. cit.*

[12]Neil Ulman, "Argentina Lists Plans To Curb Deficit, Inflation." *Wall Street Journal*, 27 January 1984, p. 35.

[13]"A Gambler's Throw?" *The Economist*, 22 June 1985, pp. 68, 70.

[14]"The Breaking of . . ." *op. cit.*

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Robert A. Peterson

John Witherspoon: "Animated Son of Liberty"

On July 4, 1776, the Declaration of Independence lay on the table of Independence Hall in Philadelphia. Two days earlier, Richard Henry Lee's resolution for independence had been adopted, and now the time was at hand when each delegate would put pen to paper, thus committing his life, his fortune, and his sacred honor to a future darkened by clouds of war. If their bid for liberty failed, those who signed would be the first to be hung from a British noose.

Sensing the urgency of the moment, John Witherspoon of New Jersey rose to speak:

> There is a tide in the affairs of men, a nick of time. We perceive it now before us. To hesitate is to consent to our own slavery. That noble instrument upon your table, which ensures immortality to its author, should be subscribed this very morning by every pen in this house. He that will not respond to its accents and strain every nerve to carry into effect its provisions is unworthy the name of freeman. For my own part, of property I have some, of reputation more. That reputation is staked, that property is pledged, on the issue of this contest; and although these gray hairs must soon descend into the sepulchre, I would infinitely rather that they descend thither by the hand of the executioner than desert at this crisis the sacred cause of my country.[1]

Witherspoon's words gave voice to the sentiments of the majority of delegates, and on July 4, America declared her independence.

In his philosophy of freedom, Witherspoon was one of the most consistent of the Founding Fathers. Leaving no realm of thought untouched, all knowledge was his province as he discussed money, political economy,

Mr. Peterson is Headmaster of the Pilgrim Academy, Egg Harbor City, New Jersey. He teaches economics and is a staunch advocate of the principles of voluntarism in education.

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philosophy, and education, all in relation to Whig principles of liberty. His articles and teachings on the nature of money foreshadowed the discoveries of the Austrian school of economics in the 19th century, and contributed to making the Constitution a "hard-money document"—a fact that has been forgotten by modern politicians.

His Influence on Others

Witherspoon never led an army into battle, nor did he run for high national office after the war. Yet his influence was such that in his role as President of the College of New Jersey (now Princeton) he helped to educate a generation of leaders for the new nation. His students included James Madison, the young Aaron Burr, Henry and Charles Lee of Virginia, and the poets Philip Freneau and Hugh Brackenridge. Ten of his former students became cabinet officers, six were members of the Continental Congress, thirty-nine became Congressmen, and twenty-one sat in the Senate. His graduates included twelve governors, and when the General Assembly of the Presbyterian Church in America met in 1789, 52 of the 188 delegates had studied under Witherspoon. The limited-government philosophy of most of these men was due in large measure to Witherspoon's influence.[2]

Born in Scotland in 1723, Witherspoon was reared on stories of the Scottish Covenanters who in years past had stood for both religious and political liberty. In due time he was sent to the grammar school at Haddington, and later entered Edinburgh University at the age of fourteen.

Witherspoon received his education in Scotland at a time when the air was filled with the kind of thinking that led to Adam Smith's *Wealth of Nations*. Indeed, Witherspoon and Smith were contemporaries, and in 1776 both would strike an important blow for liberty—Witherspoon with the signing of the Declaration on one side of the Atlantic, and Smith with his publication of the *Wealth of Nations* on the other. Witherspoon spoke out for political liberty, while Smith took a stand against mercantilism and for economic liberty. Freedom is all of a piece, and the work of these two Scotsmen complemented and supported one another. Political freedom and economic freedom go hand in hand—you cannot have one without the other.

Witherspoon received his M.A. in 1743, and spent the next two decades serving as a parish minister in the Church of Scotland. During this period of his life he developed a reputation for being the champion of the "Popular Party," which stood against patronage and pluralism in the Church of Scotland. His fame continued to grow in both Scotland

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and America, and so, when an opening occurred for the presidency of Princeton, Witherspoon's name was brought up and approved by the trustees. After careful negotiations and some pleading by Princeton alumnus Benjamin Rush, who was studying medicine in Edinburgh, Witherspoon accepted the call.[3]

Arriving in America in 1766, Witherspoon plunged into his new task with vigor. One of his first jobs was to get the college on a sound financial footing. Unlike many college administrators today, who go begging at the public trough, Witherspoon could not appeal for Federal aid. Princeton was totally supported by tuitions and voluntary contributions. Within two years, Witherspoon's fund-raising efforts (even George Washington contributed) brought Princeton back from the brink of bankruptcy.

Educational Reform

After laying a sound foundation for school finances, Witherspoon turned his attention to educational reform. He was the first to use the lecture method at Princeton. Previously, instructors had assigned readings and then quizzed their students in class. He also set up a grammar school, authored several works on child-rearing, introduced modern languages into the college curriculum, and taught a course on moral philosophy.

Witherspoon's activities at Princeton were brought to an abrupt halt by the outbreak of the War for Independence. Like most Americans, Witherspoon was at first slow to embrace the cause of independence, hoping instead for a reconciliation of the two countries based on the restoration of full English rights for the colonials—in particular, the right of their own little parliaments to tax them and make their laws, under the overall jurisdiction of the king.

Witherspoon grew increasingly concerned, however, with the attempt of the British to install an Anglican bishop over the American colonies.[4] He viewed this as the first step toward an ecclesiastical tyranny over the colonies, of which the Quebec Act was also a part (the Quebec Act extended French law, which meant no trial by jury, and Roman Catholicism into the Ohio Valley). Witherspoon understood that religious liberty—man's freedom to own his conscience—was inextricably interwined with political and economic liberty: "There is not a single instance in history," he wrote, "in which civil liberty was lost, and religious liberty preserved entire. If, therefore, we yield up our temporal property, we at the same time deliver the conscience into bondage."[5]

When hostilities broke out, and continued for about a year with no end in sight, Witherspoon felt that it was his duty to set forth the issue

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from the pulpit. In what is perhaps his most celebrated sermon, "The Dominion of Providence Over the Passions of Men," Witherspoon said:

> . . . the cause in which America is now in arms, is the cause of justice, of liberty, and of human nature. So far as we have hitherto proceeded, I am satisfied that the confederacy of the colonies has not been the effect of pride, resentment, or sedition, but of a deep and general conviction that our civil and religious liberties, and consequently in a great measure the temporal and eternal happiness of us and our posterity, depended on the issue.[6]

Witherspoon went on to say that Americans would need "pure manners," "bravery," "economy," and "frugality" if they wanted to win their independence.

Limited Government

In his concept of political economy, Witherspoon believed that good government was limited government, wherein "faction" checked "faction" so that no person or group of persons could gain unlimited power. Thus, he believed in a system of checks and balances—a system that found its way into the United States Constitution through the influence of one of his favorite students, James Madison.[7] Ashbel Green, who would follow in Witherspoon's steps as a President of Princeton, said that the aging statesman approved of the Constitution "as embracing principles and carrying into effect measures, which he had long advocated, as essential to the preservation of the liberties, and the promotion of the peace and prosperity of the country."[8]

Witherspoon put his views on civil government into practice when he served in Congress from 1776 to 1782. Always active, he served on over one hundred committees and preached to members of the Continental Congress on Sundays while in Philadelphia. The British showed that they realized the significance of Witherspoon's contribution when they burned him in effigy along with George Washington during the occupation of New York City.

The war left Nassau Hall in ruins, as the British particularly singled out Presbyterian institutions for destruction. Undaunted, Witherspoon left the Continental Congress in 1782 to rebuild his beloved Princeton. He still found time to comment on the problems which confronted the new nation—particularly economic problems. An economist, or moral philosopher, of the first rank and an advocate of hard money, Witherspoon had seen first hand the effects of the inflationary "Continentals." In his "Essay on Money," which in many ways presaged the writings of the Austrian school of economics, Witherspoon wrote:

> I observe that to arm such bills with the authority of the state, and make them legal tender in all payments is an absurd-

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ity so great, that it is not easy to speak with propriety upon it . . . It has been found, by the experience of ages, that money must have a standard of value, and if any prince or state debase the metal below the standard, it is utterly impossible to make it succeed. Why will you make a law to oblige men to take money when it is offered them? Are there any who refuse it when it is good? If it is necessary to force them, does not this system produce a most ludicrous inversion of the nature of things?[9]

Witherspoon was also mindful of the tremendous productive capacity of the free society, not only in the physical realm but in the other fields of human action as well. In a textbook he wrote for his students, he concluded: "What then is the advantage of civil liberty? I suppose it chiefly consists in its tendency to put in motion all the human powers. Therefore it promotes industry, and in this respect happiness—produces every latent quality, and improves the human mind. —Liberty is the nurse of riches, literature, and heroism."[10]

Contracts Are Important

The contract, so essential to capitalism, also loomed large in Witherspoon's thought: "Contracts are absolutely necessary in social life. Every transaction almost may be considered as a contract, either more or less explicit."[11] And in what constituted an intellectual "end run" around the classical economists, Witherspoon touched upon the discovery that value is essentially subjective, determined not by the amount of labor that goes into a product or by government decree, but by individuals freely acting in the marketplace. "Nothing has any real value unless it be of some use in human life, or perhaps we may say, unless it is supposed to be of use, and so becomes the object of human desire. . . ."[12]

Besides writing, Witherspoon spent his last years building up Princeton and his church. Two accidents left him blind the last two years of his life. His light spent, he continued to preach and teach, relying upon the vast store of knowledge that he had husbanded away through years of diligent study.

At the age of seventy-one, having crammed several careers into one lifetime, Witherspoon passed away and was buried in the President's Lot at Princeton. Two hundred years later, Witherspoon's great contributions in helping to lay the foundations of American freedom are still only darkly understood. There have been those in the past, however, who have recognized the magnitude of Witherspoon's life and thought. John Adams, for instance, noted in his diary that Witherspoon was "as hearty a friend as any of the Natives—an animated Son of Liberty."[13] One of his students, Philip Freneau, wrote:

His words still vibrate on my ear,

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His precepts, solemn and severe,
Alarmed the vicious and the base,
To virtue gave the loveliest face
That humankind can wear.[14]

It was through the influence of men like John Witherspoon that a new nation gained a constitution that repudiated interventionism, fiat currency, and embraced the idea of hard money. He was a pastor, educator, statesman, economist, and political theorist. He was, and still remains, "an animated Son of Liberty."

—FOOTNOTES—

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[13]Martha Lou Stohlman, *John Witherspoon: Parson, Politician, Patriot* (Philadelphia: The Westminster Press, 1976), p. 15.

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Ben Barker

Growing Pains

THE U.S. embodies both the greatest hope and the greatest danger that the civilized world now faces because of our unique ideological framework. Like all social orders, we are subject to thrusts of optimism, innovation and energetic expansion—but Americans take these thrusts farther, and often faster than any society ever before. Then we plunge into periods of denial, retrenchment, and even regression. These have been labeled by others as cycles, but a better analogy would be that we escalate over these episodes of alternating euphoria and depression in a jagged, ascending spiral of human development.

Even in primitive societies phases of breakdown and revitalization take place. In the early stages of breakdown individuals succumb in increasing numbers to stress-provoked mental or physical diseases. They lash out against authority, family and friends and sink into a whirlpool of withdrawal, drug and/or alcohol abuse. One by one the strands of the cultural network strain, stretch and break as marriages, families and institutions fail. The jails neither reform nor adequately imprison, there is no spiritual solace in the churches, and the government becomes tyrannical and oppressive. The people fight, bicker and separate.

Both the individual and the society at this stage lack the ability to anticipate events or to form a life or world strategy. Instead, they react in a poorly organized way to events—stumbling from one crisis to the next as in a drunken stupor. No great design emerges and the insane reac-

Ben Barker is a practicing psychiatrist in Simi Valley, California.

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tive lurching decays toward nonsensical chaos. It seems probable that the U.S. is now emerging hesitantly from precisely such an episodic breakdown into an era of growth and revitalization.

In the late 1950s we saw our last powerful era of national unity, stability and solid prosperity. We admitted that Catholics, Jews and even blacks were perhaps Americans after all and moved toward the spiritually cleansing civil rights struggles at the dawn of the sixties. What that entanglement brought about, however, was the greatest ideological antagonism to erupt in this nation since the Civil War of one hundred years before. White and black rebels in this societal confrontation forged powerful utopian links and struggled to bring us to a truer realization of the pluralism we had always preached but never really practiced. Their frequently shocking personal lives of drug and licentious sexual experimentation united the conservatives against the young rebels, and blood literally ran in the streets of our cities and universities. Most of us failed to perceive or delineate the nature or extent of that great rupture in our social fabric. As a consequence the Sixties Revolution was reported as a disjointed series of sporadic acts of anti-social violence or official retaliation.

The youth saw the Vietnam War and its concomitant draft as but an effort to herd them into Asian swamps for systematic execution, and so took their resistance from civil rights to antiwar as well. Heroin, LSD, acid rock and long hair became talismans of the revolutionaries. The conservatives, on the other hand, stumbled through outrage, retaliation, Watergate corruption and straight into the camp of hard-core materialism. By the late seventies both sides of the civil war were exhausted by their nearly two-decade ideological conflict and were ready for retrenchment. Interestingly, during the period of social turmoil a massive inflationary era had enveloped us.

The Lost War on Inflation

The debasement of the dollar naturally turned out to be a far more potent instrument of social realignment than confrontation had been. Hundreds of thousands were swept into the ranks of the wealthy by either planned or fortuitous involvement in investments that benefited from inflation. On the other side of the equation vast numbers of Americans on fixed incomes were swept beneath the poverty rug as their paper money rushed toward worthlessness. The politicians, ever ineffectual, waged a war on inflation, and lost. Meanwhile, the ever-expanding government bureaucratic class indexed their own salaries and hence became an elite walled off

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from the ravages of a plummeting dollar.

The battle for social and economic primacy and survival heated up considerably when industrial unions attempted to imitate the daring feats of government bureaucrats. What they did not understand was that local, state and federal government offices and functions are geographically fixed—private enterprise is mobile. So, corporate managements by the hundreds stripped the teeth of unions by shutting down their operations in one location, and opening up in another—often in another country. This accomplished what has been called the Deindustrialization of America. It also left government employees as the most stable and potent block of voters in the land. Their numbers, their perks, and their outlandish retirement benefits continue to escalate to this day in the midst of marked economic instability.

At the same time, inflation forced women out of the home and into the workplace. Previously unaware members of the female sex discovered that they were likely to receive unequal pay, have less power and be subjected to sexual dalliance in the office and plant. This fact of life was of course not new, but our liberal middle-class had for years refused to acknowledge the true terms of economic slavery. Additionally, these working women were obliged to leave their children in day-care centers. Recent sensational headlines have informed us of the too-frequent outcome of that tactic—sexual abuse and kiddie porn.

Faced with so many onslaughts from so many directions, even the flaming social revolutionaries of the sixties lost heart. Many sought solace in faceless religious cults which could feed and clothe them as they continued their dance of rebellion against the powers that be. Some even saw the evil of their ways, accepted the blame for the social chaos about them, put on three-piece fitted suits and came in out of the cold. Few recognized that they, too, had forsaken individuality for a cult identity, this time the cult of the corporate ideology.

A Reawakening of the Importance of Individual Responsibility

Those of us truly aware of the extent of cultural fragmentation that had taken place looked to ourselves as the sole form of transport through life that could be trusted. The government, academia, the military and the media elite were perceived as failed institutions that had betrayed our faith. We invoked our own physical or economic survival over civil law, church dogma or manipulated public polls. We refused court-ordered school busing by a variety of tactics, bought gold and guns, attempted to dismantle taxes, and

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often retreated to the foothills. We were a society in disequilibrium.

Between 1946 and 1961 roughly 64 million infants were born in America. Joined by increasing hordes of immigrants, they were labeled the Baby Boom generation. Having been raised in a period of prosperity, they walked into the job markets of the late sixties and early seventies and had doors slammed in their faces. Behind them they left a bloated educational bureaucracy which may prove increasingly redundant, and in front of them they faced an entrenched labor force unwilling to allow them easy entry. To make matters worse, many of them had not learned to read or write, and few knew the meaning of hard work. They are now our voting citizens, and they are filled with rancor. They are also now part of America's middle class.

The Indomitable Individual

Unlike the French and Russian nobility, the U.S. middle class is acutely aware of the pressures upon their privilege, and do not intend to be simply overrun by a fascist central government or the lumpen proletariat. We value our liberty highly, and recognize it as the ultimate standard of wealth in a globe of diminishing distances and collapsing values. Like all things of value, liberty must first be earned, then defended.

Gail Sheehy, the author of *Pathfinders* (Bantam Books, paperback, 1981) captures the stubborn essence of Americanism in one paragraph:

Much of the message of America's consensual ideology is conveyed nonverbally, through a continuous spring of cultural imagery: the lone silhouette of George Washington in a boat taking him to battle; the pioneer wife of the "big sky" movies, who draws a weary hand across her brow, straightens her apron, and tramps back through the flood-stricken fields determined to get the new seed in the ground; the lonesome cowboy after whom Kissinger patterned his shuttle diplomacy; the tight focus of two men in a space shuttle; right up to the hero's welcome given President Reagan by Congress a month after his stunning comeback from mortal attack. Our reverence is saved for victories of the indomitable individual over fate or circumstance, victories that are often beyond politics and religion. Mantras, prayer wheels, Tibetan death verse, martial arts, Muslim fervor, flowing Indian or African robes, and kids cavorting about Yankee fields draped in Siddartha loincloths—they are all remnants of value systems unconnected with the individualistic spirit that is in the American blood.

What this observation pays special heed to is the powerful, unique nature of the U.S. ideological framework: the magical belief system that

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the dedicated individual can overcome all odds by dint of stubborn dedication and hard work and transform his world. This dream includes inventors, singers, dancers, oil-field roughnecks, athletes and even politicians. It is the concept that if we can immerse ourselves with single-minded determination into our own very special niche and return to the social system more than we take out then lightning will strike and we will become winners. It can happen to us at any age, so the secret is to persevere.

The credentialed elite who exposed the Baby Boom generation to nihilism and existentialism benefited from this dream themselves by virtue of achieving status and privilege through conformity to academic rote. Awash with envy, however, they lusted for greater status and privilege and taught the youth to doubt seriously the articles of faith in the American dream. Left with no ideological framework, the youth went on a destructive suicidal binge until their anger was spent. That's why Johnny can't read. He was taught by a member of the Flower Child generation who had lost all faith in the system—including the belief in the human need to communicate effectively.

The present conservative backlash is a reaction phase to the era of confusion and nihilism. If it accomplishes its task, and I'm certain that it will, then we will move into an era of growth and prosperity in which pragmatic realism is spiced with imaginative beliefs in the unique power of the individual. Such a formula will allow America to move beyond the limits conceived by doom-sayers who have lost the ability to believe in the indomitable human spirit. We will grow beyond the limits of their imaginations into vistas of achievement that will dwarf present accomplishments. We will prevail.

The Entrepreneurial Spirit

The fact that the American dream is still alive, and growing, is amply proven by the number of small businesses that open each day across our land. No educational system teaches us to open and operate small businesses, or to deal with failure if we flop. We just do it. And if the lightning strikes and our enterprise moves toward success we draw unto ourselves the skills needed to overcome our growing pains. The danger of losing all and starting from scratch once again haunts our every step, but like the lonesome cowboy we buckle on our belt and spurs and tackle another day because we believe in ourselves.

Confronting the passionate individualistic dream of the American entrepreneur is the growing rat-pack of government and pseudo-government bureaucrats. Unable to even

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dream, much less achieve the nebulous task of winning, the bureaucrats make a career of stopping others. Will the Fed kill the recovery with escalating interest rates? The staid civil servant hopes so. There are already too many haughty millionaires, flamboyant technology geniuses, high-riding athletes, and unstable show business personalities. In the dry, dull world of civil service there are no greater sins than wealth and flamboyance.

Our present economic and social background, then, contains powerful antagonist forces pulling us on the one hand toward self-expression, transcendence and growth and on the other toward socialist repression. In a very fundamental sense whether we continue to grow or involute and die depends upon which force has the upper hand. Your time, energy, talent and financial investments can either be involved in the growth and development sector or in the repression and dominance sector. As individuals or as a people we can grow a little each day toward self-realization or we can die a little—depending upon how we direct our energies.

Individual or family-owned business enterprises are the economic backbone of our country because they fit so smoothly into the ideological framework that is in the American blood. When we lose sight of our strong point and move toward the dead-end structure and caste systems of older nations we are condemning ourselves to their same fates. There is genius and growth in diversity. We will decay and fall if we stifle small enterprises through repressive tax structures. If and when we become a country ruled by government and massive corporations our growing pains will cease, and our death throes will begin.

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E. Barry Asmus
Donald B. Billings

Environmental Problems and Private Property

SELF-INTEREST ASIDE, the environmental movement has appropriately focused our attention on environmental degradation and the importance of our natural surroundings in general. The issue, however, is not whether conservation and pollution are important. The crucial problem is how to develop institutional arrangements to protect our planet's physical and social habitability in the most efficient and equitable way. In that discussion, environmentalists, with very few exceptions, have *assumed* government to be the necessary custodian of the natural environment, since capitalism, in the name of profits, will exploit the minerals, forests, wildlife, and other natural values to the detriment of the environment. The idea that self-interest and the market economy are at fault has been shown to be in error by the biologist Garrett Hardin in his classic description of the environmentally destructive implications of the commons. (See "The Tragedy of The Commons," *Science,* December, 1968.) The promise that government will manage the natural environment in the "public interest" remains to be challenged.

In contrast to the private sector of the economy, where the quality of managerial decisions is brought to light by the signals of profit and loss, managers in the public sector are seldom totally accountable for their

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Dr. Barry Asmus is an economist and national speaker living in Phoenix, Arizona. Dr. Don Billings is Professor of Economics at Boise State University.

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decisions. When resources are not held privately, and therefore are not transferable to others by those in control, the public bureaucrat is rarely held accountable for any wasteful and exploitive use. Efficient resource allocation in the government sector requires informed voters and legislators. Unfortunately, existing political institutions guarantee neither. Good intentions and good people are not enough. The problem is not one of bad people running the Bureau of Land Management, the U.S. Forest Service, or the National Parks Department. Natural resource economists Richard Stroup and John Baden have identified the fundamental dilemma: "Even with good intentions and expertise, public servants are likely to generate environmental problems because they lack the feedback and reality checks inherent in the price system and markets." (See *Natural Resources: Bureaucratic Myths and Environmental Management*, Pacific Institute, 1983.)

Competing Special Interests Guarantee Conflicts

Government stewardship of natural resources guarantees bitter conflict over the use of the "public domain." As the mountain valley, lake, river, forest, or desert become popular due to rising incomes and growing population, a political struggle is the inevitable consequence of public ownership. Irresolvable conflict among competing users leaves the government bureaucrat in the middle of the argument. Hearings are held, special interests lobby their legislators, but almost inevitably good intentions produce poor results. One group lobbies to save the wild horses in the American West; consequently the horses multiply in great numbers and consume the forage which supports other wildlife species dear to the hearts of other special interest groups.

Bureau of Land Management grazing policies, determined in the political arena by special interests, destroy the land. Federal irrigation projects subsidize farmers at the expense of free flowing rivers. "Multiple use" policies guarantee political confrontation over access to "public lands" and necessarily produce inefficient results. Quality in the management of natural resources, whether in the public or private domain, is largely determined by the structure of the property rights in force. When resources are treated as common property, the tendency of fast depletion and environmental destruction is assured. However, when resources are exclusively under the control of a private owner who has an absolute right to the capital value of the assets, the owner will have a direct interest in conserving and protecting those values. In addition, the profit motive as-

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sures that the resources will be moved to their highest valued use.

Stroup and Baden in *Natural Resources* persuasively argue that an efficient management of natural resources involves three interrelated issues. First, the authority to control resources must be coupled with the personal responsibility for actions taken. Decision makers must have a personal stake in the consequences of their decisions. The public sector inevitably breaks this link and therefore inhibits accountability. Second, it must be recognized that we live in an imperfect world, and while the market system is not ideal, it does not follow that government solutions are preferable. The competitive market process, even when not operating perfectly, has otherwise unobtainable beneficial effects. Finally, it must be recognized that individuals respond to the incentives they face. Unfortunately, institutions in the past have encouraged wasteful exploitation of publicly owned property. For emotional and philosophical reasons the assignment and enforcement of private property rights have been falsely condemned as a surrender to "big business" and the profit motive.

The fact of the matter is that individuals conserve, husband, save, protect, and expand their stocks of valuable resources if they have exclusive claims on the proceeds resulting from their sale. Black Angus cattle on private ranches thrive, while the wolf nears extinction. Lion populations in private game reserves flourish, while their numbers are threatened in the wild. Hawk populations on public lands dwindle, but domesticated chickens, turkeys, and geese are harvested in great numbers in the private sector. The private forests in the southeastern United States are much more productive than the public forests in the Pacific Northwest. The contrast has been starkly stated by Stroup and Baden: "Private ownership allows the owner to capture the full capital value of his resource, and thus economic incentive directs him to maintain its long-term capital value . . . In contrast when a resource is owned by everyone, the only way in which individuals can capture its economic value is to exploit the resource before someone else does."

Problems of Interventionism

A profound illustration is provided by the National Audubon Society's management of its privately owned Rainey Wildlife Sanctuary in Louisiana where environmental values of preservation and wildlife protection exist in harmonious partnership with gas wells and grazing cattle. Nevertheless, in stark contrast to their practice at Rainey, the Audubon Society continues to advocate public ownership of federal lands to prevent mineral exploitation and de-

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velopment. At Rainey, "reality checks" that produce management decisions in which opportunity costs must be squarely faced are available to the Society. In the political arena, bureaucratic managers produce outcomes which are pleasing to no one because they are faced with ill-defined multiple use mandates and have no personal stake in decisions.

The environmental movement's preference for government ownership of natural resources has the potential of producing results opposite of what they desire for yet another reason. Government can both give and take away. The reliance on government for environmental protection is a double-edged sword which can just as easily swing in the direction of environmental destruction. The election of President Reagan in 1980 and his appointment of James Watt as Secretary of the Interior should remind us of how rapidly political circumstances can change and how the reins of government power can be shifted to those who would oppose our favorite interest. Given the speed and degree by which governments can change their mind, depending on which individuals occupy power, the ultimate security for places of beauty rests with secure and enforceable *private* property rights.

There are many examples of how the environment can be sacrificed on short notice because of emergencies declared by government. For example, the oil embargo by the OPEC countries in November 1973 quickly produced a suspension of the National Environmental Protection Act by a Congressional vote so that the Alaskan Pipeline might be built. The Wilderness Society's court action was quickly circumvented. And this was the same government which held energy prices *down* during the 1970s and thereby stimulated energy use in the U.S. While spending billions to encourage energy conservation with their right hand, government simultaneously "encouraged" consumption, through price controls, with their left hand.

In the summer of 1979, largely as a result of the government created "energy crisis," President Carter and important members of both par-

Crossroads is an important and comprehensive presentation of the rise, decline, and restoration of freedom and the market economy. The authors do an outstanding job of introducing readers to the history and nature of the American free market experiment. Copies can be ordered from the American Studies Institute, 3420 East Shea, Suite 266A, Phoenix, Arizona 85028: Paper $14.95, Cloth $26.75. Please add $1.50 for shipping and handling.

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ties in Congress advocated a new Federal Energy Mobilization Board which would have had broad powers to override all existing environmental legislation. A little emergency here, another there, and the political atmosphere shifts to a stance which argues that the environment must be sacrificed to the latest *political* difficulty.

The Private Property Alternative

The essence of politics is compromise, which hardly assures confidence that environmental concerns will have priority. The government limits the liability of private power companies from nuclear accidents under the Price-Anderson Act, and thereby contributes to the proliferation of nuclear power stations like the Diablo operation on the coast of California. This is the very same government that most environmentalists wish to assign the responsibility of conserving, preserving, and protecting our physical environment. To a degree, fortunately, the environmental movement is coming to recognize the risks associated with government's stewardship of the land and wildlife. Audubon's experience with the Rainey Wildlife Sanctuary is difficult to ignore. Nature Conservancy and Ducks Unlimited have demonstrated their recognition of the importance of private ownership and, therefore, control of valuable wilderness and other environmental treasures.

Capitalism and the profit-motivated capitalist are not fundamentally to blame for the various classes of environmental decay witnessed on spaceship earth. Indeed, private ownership for profit generates an incredibly powerful incentive to conserve and cultivate resources in order to increase their value to other users. It is our conviction that the best hope for the long run conservation of natural resources and the environment rests with privatization and the enforcement of private property rights in a free-market setting.

Ruth Shallcross Maynard

IDEAS ON LIBERTY

NATURAL resources are best utilized and conserved where they meet specific economic requirements in the most efficient way as determined by competition in the free market. . . . Conservation will take place in the best sense where individuals are allowed to seek solutions to their own personal problems as they arise.

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To the Editor

Last month we inaugurated our "To the Editor" feature. Each month we will share with readers the most interesting and provocative letters we receive regarding *Freeman* articles. Since FEE's activities encompass more than just publishing *The Freeman*, we will also include, from time to time, comments about other FEE undertakings. In short, we want this to be the space in which our readers share their opinions.

Limited space will preclude our printing all the thoughtful letters we receive. Letters may be edited for purposes of clarity or space. Send your comments to:

To the Editor
The Freeman
Foundation for Economic Education
Irvington, New York 10533

On Equal Rights

To the Editor:

I find it strange that Michael Bordelon in his "A Conservative Declaration" (September, 1985) finds that the Declaration of Independence gives no content to its famous equality clause, "that all men are created equal." That clause is followed immediately by the equally famous one which declares: "That they are endowed by their Creator with certain inalienable rights. . . ." If the language means anything, the two clauses are linked and the thought expressed very clearly implies that the equality of all men lies in their equal possession of natural rights.

Dr. Bordelon also ignores the principle of equality of all before the law. While not explicit in the Declaration, it was certainly an operative principle in most American constitutions, with the regrettable exception of women and slaves.

It is noteworthy that Kenneth McDonald in "Routing the Fabians" (October, 1985) fixes on the principle of equality before the law as the remedy for fending off the special interest groups who demand special privileges of an economic character. This was precisely the approach used in the days of Jefferson and Jackson to

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break the privileges of groups seeking economic advantages through government-granted monopolies, subsidies, tariffs, licensing, and regulation of businesses.

The brilliant Jacksonian editor, William Leggett, used the slogan "Equal Rights" to challenge those who sought economic advantage through government privileges. He used the principles of laissez-faire, the free market, and equal rights, to rally the people against the new aristocracy arising through their enjoyment of government-granted privileges. Those searching for a new rhetoric to rally the forces of freedom in today's statist society would profit from reading Leggett's defense of equal liberty in his *Democratik Editorials: Essays in Jacksonian Political Economy,* edited by Lawrence White (Indianapolis: Liberty Press 1984).

JOSEPH PEDEN
New York, NY

The Moral Battle

To the Editor:

It is encouraging to see articles extolling "The Morality of Capitalism" (September, 1985). More articles illuminating the moral superiority of the free exchange of property, ideas, and services need to be written and widely publicized.

The connection between the private property order and individual choice, with its basis in morality, is the arena in which the battle between the socialist ideology and that of free men must be fought. The arena is *not* "which system is more efficient." The free market wins the efficiency contest hands down.

This article stands in stark contrast to the pronouncements of the Bishops' pastoral letters or the National Council of Churches who see little moral virtue in the free market. The defense of the free market has to be made in the arena of the "permanent things"—of morality—or the battle is lost.

PAIGE MOORE
Houston, TX

And Thank You!

To the Editor:

When I was a young man, still wet behind the ears, spending my time playing instead of learning, I never had time to notice what was happening to my country.

So I and many others like me stared blindly about as the dreams of Jefferson, Washington, and Patrick Henry were being buried under a mountain of Marxist nonsense. And never was heard an opposing word. Well, fortunately for me, almost never.

For, even then, there was FEE keeping the truth alive. Through *The Freeman* and other publications, it gave us the intellectual am-

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munition to do battle with the enemies of freedom. *The Freeman* offered rational antidotes to the day-to-day poison we were being taught. It has passed the torch to new generations of Americans. That is an incredible job, one still unknown to most people and yet one of the most courageous and admirable undertakings of the twentieth century.

So let me take this opportunity to say, thank you, to all of the people at FEE, past and present, for being there and raising a standard for all to see. Keep up the good work.

HERB GROSSMAN
New City, NY

Sharing Profits

To the Editor:

I have always admired Henry Hazlitt. His books—among them *Economics In One Lesson*, his book on inflation, and *The Great Idea*—are all superb. Nevertheless, I was surprised by his article on "The Limitations of Profit-Sharing" (September, 1985).

My basic motivation for becoming a profit sharing consultant has little to do with profit sharing as such—to me profit sharing is a means to an end. By making employees partners through profit sharing, one is laying the foundation for trust and mutual interest on which to build an effective program of education on the economic facts of business life. Furthermore, if businessmen in America were successful in meeting this challenge, there would be no trade imbalance.

A few years ago, attending the Annual Conference of the Profit Sharing Council of America, I heard the extraordinary story told by Mr. John McConnell, Chairman of Worthington Industries in Columbus, Ohio. In the 14 years since cash profit sharing was installed, some $22.5 million have been paid out. In 1978, $6.4 million were distributed to some 800 individuals. The average production worker received just under $10,000 on top of a salary of $12,000.

The results? Whereas productivity as measured by sales per employee attained a median level of about $60,000 in the metal manufacturing business, and $58,000 for all industries, at Worthington productivity averaged $176,000 per person in 1978.

As regards profits, Worthington's total return to investors—price appreciation plus cash dividends—for the past ten years of 34 per cent annually ranked as second among *Fortune's* 1000 largest companies in 1978.

I enthusiastically support incentive profit sharing.

SARTELL PRENTICE, JR.
Pasadena, CA

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Reality and Rhetoric

THE Labor peer in Britain, appointed to the House of Lords by Labor governments, is a twentieth-century phenomenon. Now, as the twenty-first century approaches, we are witnessing the creation of a Free Market peerage. Ralph Harris, now Lord Harris of High Cross, takes infinite delight in promoting the beliefs of Friedrich Hayek and the Mont Pelerin Society from a back bench. And P.T. Bauer, now Lord Bauer, a 1982 life peer appointment of Margaret Thatcher, makes it a one-two succession of punches for a classical liberalism that has long been out of fashion even among Tory lordships.

Lord Bauer is anything but an ideologue. He would gladly admit to a bias for freedom, but he works strictly from the facts when he criticizes the conventional wisdom about such things as foreign aid. His most recent book, *Reality and Rhetoric* (Harvard University Press, Cambridge, Mass., 184 pp., $15.00), takes off from his personal experiences as a student of British colonial office practices in the Twenties and Thirties in West Africa and Southeast Asia. Detailed as a young economist to make investigations of the rubber industry in Malaya and Sumatra and the cocoa industry in West Africa, Bauer was impressed with what a light hand the British colonial office ruled in the days before the Fabians took over its guidance. Both the rubber industry and the cocoa industry were the creation of native individuals who were glad to borrow where they could but who did the necessary clearing and planting on their own. The British "imperialists" gave the local entrepreneur a free hand as

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long as he did not engage in tribal warfare.

Bauer observes that before 1885 there was not a single rubber tree in Malaya or a single cocoa tree in Nigeria and the Gold Coast in Africa. There was nothing that might be called an infrastructure to enable peasants to get their goods to distant markets. The change came about through local initiatives, not through any top-down planning in London. Chinese traders were drawn to the rubber trade in Asia. "Some started their own plantations," says Bauer, "while others brought seeds and consumer goods to the indigenous people of Malaya and Netherlands India (now Indonesia)." By the late Nineteen Thirties more than half the rubber acreage in Southeast Asia was owned by Asians. Foreign borrowing accounted for little of this: the acreage, says Bauer, "represented the results of capital formation through direct investment in the face of initially low incomes."

In West Africa, says Bauer, there were (and are) no European-owned plantations. Cocoa, ground nuts, cotton and kola nuts have been produced on farms established, owned and operated by individual Africans. Local traders, financed by Europeans, have provided necessary capital. The local trader, unhampered by government, "made available consumer goods and production inputs, and provided the outlet for cash crops." Bauer quotes Sir Keith Hancock as rightly calling West Africa "the Traders' Frontier."

A Fabian Legacy

It was the triumph of Fabian ideas in Europe in the late Thirties that changed everything in West Africa and Malaysia for the worse. Government marketing boards were set up with monopoly powers. The free trader was practically abolished. Little proprietors had to sell to the marketing boards at specified prices. The boards, with surpluses to use as the politicians saw fit, were, in a way, functioning as tax collectors. A younger generation of native intellectuals journeyed to London to study economics under Fabian professors such as Harold Laski. They returned home to become the advisers to government. When, in the last years of British colonial rule, the situation was described to colonial secretary Oliver Lyttleton and to Andrew Cohen, the head of the African Development Department of the colonial office, they remarked cynically that the African peasant had no future anyway.

So things stood in Africa when the British were busy turning over local governments to politicos such as Nkrumah. In a "one man, one vote, once" situation, Nkrumah used the Gold Coast-Ghana Cocoa Marketing Board as his financial power base for years to deadly effect. With traders

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prohibited, the economy stagnated.

Bauer writes of West Africa, but he is quite aware of the whole African—and Third World—situation in various detail. Not all Third World countries are alike, but the foreign aid policies of the West have had the unfortunate effect of dragging them down to a dead level. The Third World is a political concept, not an economic one. Tanzania, in East Africa, has good soil and good growing weather, but President Nyerere, a proponent of single party socialism, has used extensive aid from theWest to ruin his economy. He has driven his peasants into villages and collectivized their farms. The result has been poor food production. In Zaire, another big aid recipient, President Mobuto has expelled independent traders. This has resulted in a reversion to subsistence production. The aid money from the West keeps Mobuto in power. Mobuto takes it as a bribe to keep him in the western political camp, but the money does not trickle down.

There is plenty of lavish spending of aid money in the Third World, but Bauer asks how the poor benefit from such brand new capitals as Brasilia, Islamabad, Abuja in Nigeria and Dodoma in Tanzania. New government-owned airlines provide prestige for the "in" politicos, but the vast majority of the people can't use them or even operate them.

Bauer thinks it is a sophistry to say that foreign aid to the Third World keeps employment up in the donor countries. The provision of British ships to India, Poland and Vietnam in the Seventies did benefit labor and management in British shipyards, but the taxpayers put out the money. They will never get it back from the recipients of their largesse. Bauer thinks it would have been more sensible to use the shipyards for other purposes.

Bauer blames the politicians for much of our trouble, but he does not exempt his fellow economists. They generalize on the basis of demographic change and forget such "core" things as wages and prices. It is our good fortune that Bauer has a "bully pulpit" in the House of Lords to tell us what is wrong.

FREEDOM WITH JUSTICE: CATHOLIC SOCIAL THOUGHT AND LIBERAL INSTITUTIONS
by Michael Novak
(Harper & Row, San Francisco), 1984
253 pages ■ $17.95 cloth)

Reviewed by John K. Williams

NO DEFENDER of liberty can regard with equanimity the abhorrence of the free market in a free and open society displayed by many mainstream church bodies and leaders. All such defenders of liberty are therefore indebted to Michael Novak for his volume, *Freedom With Jus-*

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tice. While the work is self-contained, it usefully supplements Novak's influential earlier work, *The Spirit of Democratic Capitalism;* indeed, men and women committed to economic and political freedom, and anxious to promote a creative interchange of viewpoints with clerical opponents of these freedoms, would do well to have both volumes on their bookshelves.

Part I of *Freedom With Justice* explores the relationship between economics and religion, examines the tension between classical liberalism and Catholic social ethics, and relates these analyses to two much discussed issues in contemporary Western democracies: first, poverty and welfare, and second, the creation of employment.

In Part II Novak proffers a detailed exposition of Catholic social ethics and a no less detailed analysis of the thought of John Stuart Mill, described as "a quintessential Liberal." In the third and final section of his volume, Novak addresses "some of the problems with which Catholic social thought is bound to be wrestling during the rest of (the twentieth) century"—for example, the amelioration of poverty, the protection of human rights, and the fostering of a sense of identity which, in a large and complex society, cannot be mediated through "society as a whole."

Novak presents his readers with an abundance of precise and detailed documentation. Moral issues which no defender of liberty can ignore, and moral insights which all such defenders can welcome, inform almost every chapter of the book. No thinking person—religious, nonreligious, or antireligious; socialist, libertarian, or conservative—could responsibly shrug off the case Novak develops.

It is, however, unlikely that any reader of the work would agree with Novak's stance *in toto.* Statist readers will be dismayed by Novak's challenging of their dogmas. This reviewer found Novak's analysis of human rights impressionistic, his defense of a "safety-net" welfare system unconvincing, and his surprisingly naive trust in "limited" interventionism incomprehensible. Contemporary reformulations of classical liberalism—for example, that developed by Robert Nozick—are, unfortunately, not discussed.

Novak issues a challenge to pro-socialist clerics, and provides defenders of liberty with ample ammunition to take the fight to local church communities. Agnostics might enjoy startling their neighbors by purchasing several copies of *Freedom With Justice* and presenting them as Christmas gifts to their community's clerics! But all readers of *The Freeman*—religious or nonreligious—would do well carefully to study this volume.

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Prepared by BETTINA BIEN GREAVES of the Foundation staff

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